House Policy Committee **Chairman John Shadegg**

6 IRREFUTABLE FACTS ABOUT SOCIAL SECURITY
Why Doing Nothing Is Not An Option

This paper presents a synopsis of six indisputable facts which are driving the impending crisis in the Social Security program. In order to ensure the future of the program and the ability of individuals to prepare adequately for their own retirements, something must be done to shore up the program now. While there are several proposed solutions on the table, the following undeniable facts lead to but one inescapable conclusion: Doing nothing is NOT an option and NOW is the time to act.

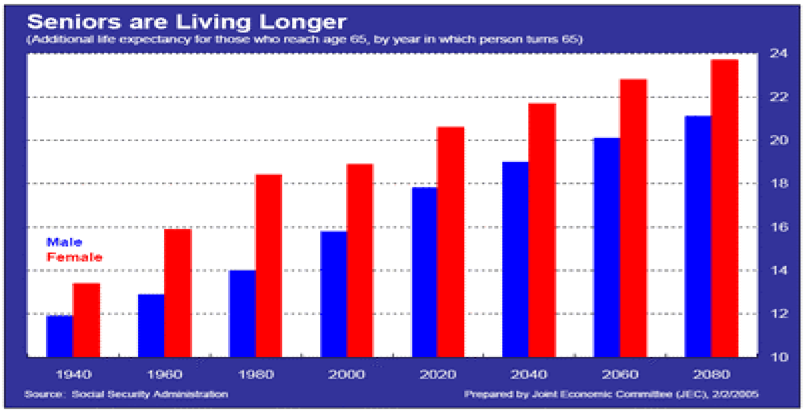
Fact One: The number of workers per retiree has declined dramatically and continues to decline.

Social Security is a pay-as-you-go program. This means that the money workers pay into the Social Security immediately goes to pay the benefits of today's retirees. That money is not set aside for tomorrow's retirees. They have to hope that, when they retire, there will be another generation behind them to pay taxes to support them. This sort of pay-as-you-go system worked fine when there were many workers supporting each retiree. But today the system is putting more and more financial strain on workers.

The number of workers in America has increased since 1950, but the number of retirees has grown much faster. The numbers bear this out. In 1945, there were 42 workers paying into the Social Security program for every one retiree receiving benefits. In 1950, there were 16 workers per retiree, and today there are 3.3 workers per retiree. The Social Security Administration estimates that this number will drop to 2 workers per retiree by 2030.

Fact Two: Americans are living longer.

Life expectancies have further complicated matters on the expenditure end of the program. Not only is the number of retirees growing faster than ever before, but Americans are also living longer. By 2020, Americans will – on average – be drawing benefits for 19 years. Continued advances in standards of living, medical technology, and health care are likely to continue this trend and exert even more upward pressure on the cost of Social Security.

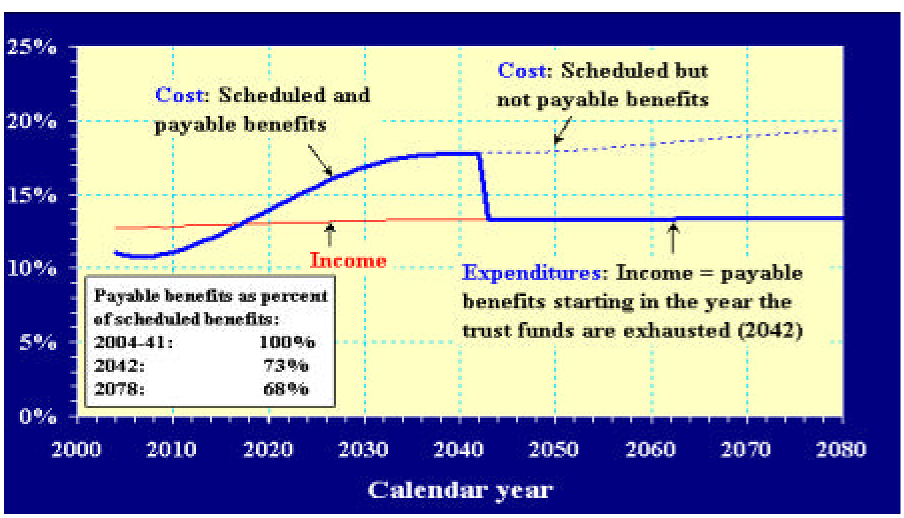


Fact Three: The Social Security Trust Fund contains no real assets.

The Social Security Trust Fund contains neither cash nor gold. Further, it is not invested in real estate or marketable securities. The fund's resources have been borrowed against and spent by the government. Thus, it contains "special issue" bonds which are government-backed securities that are issued only to the trust fund and are largely not traded on the open market. The fund essentially exists as one which is owed to ourselves. In order to turn the "special issue" bonds into cash that can be used to pay monthly benefits to retirees, the government will have to pursue some combination of borrowing, cutting spending, or raising taxes – all difficult choices which will hinder the growth of the economy.

Fact Four: In 2018, Social Security will begin running a deficit.

Today, Social Security takes in more in Social Security payroll taxes than it spends in benefits. But, the Social Security Administration actuarial estimate forecasts that beginning in 2018 the program will pay out more money in retirement benefits than it brings in from payroll taxes.



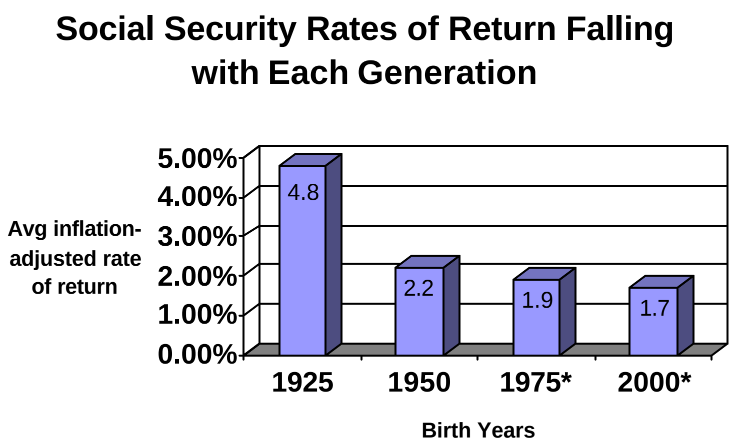
Source: Social Security Administration

Fact Five: In 2042, the Trust Fund will be bankrupt and benefits would have to be reduced by 27%.

The current SSA actuary estimate forecasts that the system will have exhausted all of the "special issue" bonds in the Trust Fund by 2042. At that time, promised benefits will exceed tax revenues and there will be no balance in the Trust Fund to draw upon to make up the difference. Absent changes, Social Security benefits would have to be reduced by 27% with additional reductions occurring as the program's deficits grow. This difference between the benefits scheduled to be paid to retirees and the program's ability to meet that obligation is the Empty Promise of the current system.

Fact Six: The current rate of return is unacceptably low and declining.

While the early participants in Social Security received a fair rate of return on their Social Security payroll taxes, that ratio has dropped by more than half. A worker born in 1950 will receive only a 2.2% return. And, in their retirement years, workers who are just now entering the workforce can expect even less. The average is now down to 1.8% and falling. More significantly, because they will spend all of their retirement years in the period beyond 2042, they are guaranteed never to receive a check reflecting even the system's current promised benefits.



THE TIME FOR ACTION IS NOW

The Social Security Administration has estimated that the program's shortfall is $10.4 trillion. Every year of Congressional inaction adds $600 billion to that amount. Because the biggest challenge to a moral society is how it treats its future generations, we must act now.

For additional information and a PowerPoint presentation, visit http://policy.house.gov.